

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21ST DISTRICT AGRICULTURAL ASSOCIATION
BIG FRESNO FAIR
FRESNO, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-019
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

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AUDIT REPORT NUMBER

#09-019

21ST DISTRICT AGRICULTURAL ASSOCIATION
BIG FRESNO FAIR
FRESNO, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Larry Serpa, President
Board of Directors
21st DAA, The Big Fresno Fair
1121 S. Chance Avenue
Fresno, CA 93702-3707

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 21st District Agricultural Association (DAA), Big Fresno Fair, Fresno, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 21st DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

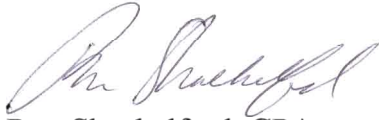
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 21st DAA, Big Fresno Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 21st DAA, Big Fresno Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-019, on the 21st DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 21st DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in cursive script, appearing to read "Ron Shackelford".

Ron Shackelford, CPA
Chief, Audit Office

June 26, 2009

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	Account Number	2008	2007
ASSETS			
Cash and Cash Equivalents	111-117	\$ 2,821,006	\$ 4,449,922
Accounts Receivable, Net	131 - 133	864,535	594,367
Land	191	244,077	244,077
Equipment, Net	193	96,466	152,659
Leasehold Improvements, Net	194	11,340,944	10,459,531
TOTAL ASSETS		<u>15,367,028</u>	<u>15,900,556</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212, 221-226	542,421	457,505
Current Portion of Long Term Debt	212.5	225,712	135,129
Deferred Income	228	194,490	224,015
Guarantee Deposits	241	27,408	43,010
Compensated Absences Liability	245	383,137	327,424
Long Term Debt	250	2,495,557	2,044,964
Total Liabilities		<u>3,868,725</u>	<u>3,232,047</u>
Net Resources			
Reserve for Junior Livestock Auction	251	53,020	61,545
Net Resources - Operations	291	2,259,353	3,795,661
Net Resources - Capital Assets less Debt	291.1	9,185,930	8,811,303
Total Net Resources Available		<u>11,498,303</u>	<u>12,668,509</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 15,367,028</u>	<u>\$ 15,900,556</u>

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ -	\$ 35,000
Other Project Funds	318	13,694	145,028
Capital Project Reimbursement	319	146,952	3,150,407
Admissions	410	1,939,909	2,105,472
Commercial Space	415	309,588	302,755
Carnival	421	1,350,000	1,300,000
Concessions	422	1,160,939	1,155,530
Exhibits	430	32,279	34,007
Horse Racing- Fairtime Pari-Mutuel	450	977,369	1,166,938
Horse Racing- Satellite Wagering	450.5	564,780	521,291
Miscellaneous Fair	470	2,306,208	2,093,565
JLA Revenue	476	44,772	68,959
Non-Fair Revenue	480	1,106,849	1,109,694
Prior Year Adjustment	490	(11,353)	(138,090)
Other Revenue	495	122,220	182,977
Total Revenue		<u>10,064,206</u>	<u>13,233,533</u>
EXPENSES			
Administration	500	1,515,072	1,555,444
Maintenance and Operations	520	1,661,797	1,429,812
Publicity	540	934,351	846,307
Attendance	560	1,407,103	1,177,360
Miscellaneous Fair	570	200,879	53,965
Junior Livestock Auction Expense	576	53,297	45,071
Premiums	580	182,721	177,643
Exhibits	630	563,845	533,425
Horse Racing- Fairtime Pari-Mutuel	650	1,118,845	1,049,553
Horse Racing- Satellite Wagering	650.5	692,830	645,725
Attractions - Fairtime	660	2,265,591	1,871,529
Equipment	723	21,112	22,960
Prior Year Adjustments	800	269,910	15,227
Cash Over/Short from Ticket Sales	850	18,155	9,035
Depreciation Expense	900	298,712	489,556
Other Operating Expenses	945	30,192	15,771
Total Expenses		<u>11,234,412</u>	<u>9,938,383</u>
RESOURCES			
Net Change - Income / (Loss)		(1,170,206)	3,295,150
Resources Available, January 1		12,668,509	9,373,359
Resources Available, December 31		<u>\$ 11,498,303</u>	<u>\$ 12,668,509</u>

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses	\$ (1,170,206)	\$ 3,295,150
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(270,167)	221,227
Increase (Decrease) in Accounts Payable and Other Liabilities	84,916	112,462
Increase (Decrease) in Current Portion of Long Term Debt	90,584	8,236
Increase (Decrease) in Deferred Income	(29,525)	156,906
Increase (Decrease) in Unclaimed Check Liability	-	(29,061)
Increase (Decrease) in Guarantee Deposits	(15,602)	13,956
Increase (Decrease) in Compensated Absences Liability	55,713	32,231
	<u>(84,081)</u>	<u>515,957</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,254,288)</u>	<u>3,811,107</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	-	71,825
(Increase) Decrease in Leasehold Improvements	(881,414)	(5,336,366)
(Increase) Decrease in Equipment	56,193	(44,856)
	<u>56,193</u>	<u>(44,856)</u>
Net Cash Provided (Used) by Investing Activities	<u>(825,221)</u>	<u>(5,309,397)</u>
 Increase (Decrease) in Long Term Debt	 <u>450,593</u>	 <u>1,852,769</u>
Net Cash Provided (Used) by Financing Activities	<u>450,593</u>	<u>1,852,769</u>
NET INCREASE (DECREASE) IN CASH	(1,628,915)	354,480
Cash at Beginning of Year	4,449,921	4,095,442
CASH AT END OF YEAR	<u><u>\$ 2,821,006</u></u>	<u><u>\$ 4,449,922</u></u>

**21st DISTRICT AGRICULTURAL ASSOCIATION
BIG FRESNO FAIR
FRESNO, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 21st District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Big Fresno Fair each year in Fresno, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 100	\$ 100
Change Fund	71,454	82,700
Cash in Bank - Operating	209,610	151,791
Cash in Bank - Payroll	(1,127)	1,162
Cash in Bank - LAIF	32,113	31,122
Cash in Bank - Savings	2,458,131	4,132,666
Cash in Bank - JLA	<u>50,725</u>	<u>50,381</u>
Total Cash and Cash Equivalents	<u>\$ 2,821,006</u>	<u>\$ 4,449,922</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 936,589	\$ 687,218
Allowance for Doubtful Accounts	<u>(72,054)</u>	<u>(92,851)</u>
Accounts Receivable - Net	<u>\$ 864,535</u>	<u>\$ 594,367</u>

NOTE 5 PROPERTY AND EQUIPMENT

Leasehold improvements and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Leasehold Improvements	\$23,382,295	\$22,218,567
Less: Accumulated Depreciation	<u>(12,041,351)</u>	<u>(11,759,036)</u>
Leasehold Improvements - Net	<u>\$11,340,944</u>	<u>\$10,459,531</u>
Equipment	\$ 420,593	\$ 428,151
Less: Accumulated Depreciation	<u>(324,127)</u>	<u>(275,492)</u>
Equipment - Net	<u>\$ 96,466</u>	<u>\$ 152,659</u>

NOTE 6 LONG-TERM DEBT

The 21st DAA has entered into an agreement with California Construction Authority (CCA) to install the Photovoltaic power-generating project on the

fairgrounds. In July 2007, CCA completed the Photovoltaic Project and the DAA recognized the loan term debt of \$1,988,052 based on the CCA closed project reports. However, the Use Agreement from CCA reflects total amount financed of \$2,748,817, which includes an estimated total soft cost of 587,264 to refinance the existing loans with National City Commercial Capital Corporation (NCCCC). CCA is working on refinancing the existing loans from NCCCC with an interest rate of 5.15% over 10 years by the issuance of the Clean Renewable Energy Bonds (CREB); thereby reducing the interest rate to 0.301173% over 15 years. The DAA is making monthly loan payments of \$15,621 based on a Proforma provided in 2008 by CCA as if CREB financing were in place. As of this date, efforts to find buyers for CREB have met with no success. The estimated terms of the agreement are as follows:

CCA Photovoltaic Loan:

Loan Amount	\$ 2,748,817
First Payment Date	July 2008
Payment Amount	\$ 15,621
Duration of Loan	191 Months
Interest Rate	0.381330%
Total Outstanding at 12/31/08	\$ 2,664,514
Current Portion at 12/31/08	\$ 168,957
Long-Term Portion at 12/31/08	\$ 2,495,557

Moreover, in June 2001, the 21st DAA obtained a loan for \$1,000,000 from County Bank for a long-term construction project associated with the fairgrounds. As of December 31, 2007, the DAA has an outstanding liability balance of \$179,324. The terms of the agreement are as follows:

County Bank

Loan Amount	\$ 1,000,000
First Payment Date	July 2001
Duration of Loan	10 Years
Interest Rate	6.02%
Payment Amount	\$ 11,156
Total Outstanding at 12/31/08	\$ 52,841
Current Year Liability	\$ 52,841

Furthermore, in April 2004, the 21st DAA entered into two long-term capital lease agreements for office equipment with the International Corporation. The terms of the agreements are as follows:

Xerox 3535 Digital Copier

Loan Amount	\$ 14,501
First Payment Date	June 2004

Duration of Loan	5 Years
Interest Rate	9.25%
Payment Amount	\$ 304
Total Outstanding at 12/31/08	\$ 1,485
Current Year Liability	\$ 1,485

Xerox 2101 ST Digital Copier

Loan Amount	\$ 23,803
First Payment Date	June 2004
Duration of Loan	5 Years
Interest Rate	9.25%
Monthly Payment	\$ 497
Total Outstanding at 12/31/08	\$ 2,429
Current Year Liability	\$ 2,429

NOTE 7

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's

gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**21st DISTRICT AGRICULTURAL ASSOCIATION
BIG FRESNO FAIR
FRESNO, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 21st DAA Board of Directors
1	Chief Executive Officer, 21st DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

MANAGEMENT REPORT #09-019

YEAR ENDED DECEMBER 31, 2008

21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Marinette Babida	Auditor
Harvey Hunter, CPA	Auditor
Stefanie Leckey	Auditor

MANAGEMENT REPORT NUMBER
#09-019

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Larry Serpa, President
Board of Directors
21st DAA, The Big Fresno Fair
1121 S. Chance Avenue
Fresno, CA 93702-3707

In planning and performing our audit of the financial statements of the 21st District Agricultural Association (DAA), The Big Fresno Fair, Fresno, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the The Big Fresno Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 21st DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 21st DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 21st DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 21st DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 21st DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 21st DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: standard agreements, board member tickets/passes, courtesy pass limitation, excessive paid leave balances, cashing of entertainers' checks from admission revenue, and accounting for deferred income. We have provided 11 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 21st DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of standard agreements revealed the following exceptions:

- a. The Fair did not go out to bid for four service contracts in excess of \$5,000 as required by the Fairs & Expositions (F&E) Contract Manual. The contract amounts ranged from \$36,000 to \$265,050. According to the Contract Manual Section 2.05, Bidding Requirements, contracts over \$5,000 and not otherwise exempt from bidding must be either formally bid through either the Request for Proposals or Invitation for Bids process or awarded using the Alternate Bid Process.
- b. The Fair did not prepare a written justification, for at least nine contracts, explaining the reason each of these multi-year contracts are in the best interest of the Fair. These contracts pertained to services such as public relation communication services, sound services, shade structures, lighting, and garbage removal. According to the Contract Manual Section 5.10, Multiple Year Contracts/Options to Renew, all Fairs are required to provide written justification for multi-year contracts. In addition, the justification should be written in the Standard 215, Agreement Summary.
- c. The Fair paid for services prior to a finalized signed contract with a sponsorship coordinator. The terms of the contract began January 2008; however, the contract was not signed until a year later, in January 2009. According to this contract, in 2008 the sponsorship coordinator was to be paid \$7,500 per month plus a commission of 20% for the gross sponsorship cash value in excess of \$495,000. Per the general ledger, the Fair paid the sponsorship coordinator \$208,364, which consisted of the monthly fee and the commission. The absence of a fully signed executory contract makes the contract voidable. Therefore, a signed written agreement provides material evidence of the actual terms agreed upon by both parties. Without a signed written contract, there is minimal protection for either party, potentially leading to insufficient payment of services performed or unfulfilled obligations of the contract terms.
- d. The Fair failed to withhold two prospective out-of-state entertainers, receiving \$1,500 or more, to the Franchise Tax Board (FTB), Withholding at Source Unit. Beginning January 1, 2008, all withholding agents must withhold the standard 7% on California source payments to nonresidents to ensure proper taxation withholdings of entertainers/performing entities by the Fair when required by FTB.
- e. The Fair did not always obtain a completed Standard 204, Payee Data Record, for all individuals/businesses receiving payment from the State of California, as required. The Fair incorrectly obtained completed Internal Revenue Service (IRS) Form W-9, Request or Taxpayer Identification Number and Certification. The Standard 204 is required to be used in lieu of the IRS Form W-9 and should be on file for taxpayer identification purposes.

Recommendations

1. *The Fair should comply with the Contract Manual Section 2.05, Bidding Requirements, by seeking quotes and using the bidding process when appropriate.*
2. *The Fair should comply with the Contract Manual Section 5.10, Multiple Year Contracts/Options to Renew, and prepare a written justification for any multi-year agreements.*
3. *The Fair should ensure that all contracts are properly signed by both parties prior to the execution of the agreement.*
4. *The Fair should carefully review all policies governing entertainer withholding to ensure the Fair properly withholds taxation for any out-of-state entertainers compensated in excess of \$1,500.*
5. *The Fair should ensure that a Standard 204 is completed and on file for all individual/business's receiving payment from the State of California.*

BOARD MEMBER TICKETS/PASSES

The Fair issued a significant amount of admission tickets, VIP tickets, parking tickets and box seats totaling \$40,082 to its Board Members or \$4,454 to each Board Member. These tickets consist of 1,336 admission tickets totaling \$10,688; 900 VIP tickets totaling \$18,000; 468 premier parking tickets totaling \$5,616; and nine box seats totaling \$5,778. The Fair explained that board members attend the Fair and various events in an attempt to foster goodwill and enhance public relations. We agree with the Fair that board members should attend certain events as long as the ticket serves a legitimate public purpose consistent with the law. However, at the time of the audit, the Fair was unable to provide our office with detailed records regarding the tickets. In the future the Fair should provide all necessary records as recommended by the California Fair Political Practices Committee in the recently adopted California Code of Regulations Section 18944.1.

Recommendation

6. *We recommend the Fair continue to improve their internal controls over their ticket/pass distributions.*

COURTESY PASS LIMITATION

In 2008, the Fair exceeded the 4% courtesy pass admission limitation. The Fair reported 12.5% courtesy pass admissions as a percentage of prior year gross paid admissions. According to the California Food and Agricultural Code Section 3026, "The percentage of courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4% of the gross paid admission to the fair in the preceding calendar year." The Fair should be cautioned that excessive distributions of this nature may be deemed an inappropriate use of public funds. This was a prior year audit finding.

Recommendation

7. *The Fair should review and improve its policy for the issuance of courtesy passes to ensure the 4% limitation specified within the Food and Agriculture Code is not exceeded.*

EXCESSIVE PAID LEAVE BALANCES

The Fair allowed six employees to exceed the maximum leave accrual of 640 hours for vacation or annual leave. These employees had leave balances ranging from 643 to 1,592 hours at year-end. The Department of Personnel Administration limits the amount of hours that permanent employees may carry over to the following calendar year to a maximum of 640 hours. This was a prior year audit finding.

Recommendation

8. *The Fair should ensure that permanent employees do not carry over accrued leave hours in excess of 640 hours. The Fair should encourage employees with excess balances to take time off, thereby reducing their accumulated leave balances.*

CASHING OF ENTERTAINERS' CHECKS FROM ADMISSION REVENUE

The Fair cashed entertainers' checks totaling \$158,500, which is a prohibited practice according to the SAM Section 8032.4. According to Section 8032.4, Coin and Currency, "Agencies will not disburse or withhold receipts for the purpose of establishing or augmenting an over-the-counter change fund...agencies will also not use receipts to be deposited to cash checks."

Recommendation

9. *The Fair should comply with SAM Section 8032.4 and ensure all cash receipts collected from fair time admissions are deposited intact. In the future, the Fair should not use daily receipts or their change fund to cash any checks.*

ACCOUNTING FOR DEFERRED INCOME

An examination of deferred income, as reported on the 2008 Statement of Operations, revealed the following exceptions:

- a. The Fair did not adhere to the terms of its swap meet contract related to improvements of the parking lot. Based on our review, the Fair maintained a Tenant Improvement Liability Account totaling \$70,007. The contract requires a portion of the swap meet rent to be allocated to an improvement fund. Per contract specifications, this liability account is not to exceed \$35,000. When the account reaches that amount, the excess funds are to be expended for improvements. Although the Fair maintains an account to fund parking lot improvements on behalf of the swap meet, the Fair did not charge the improvements made during 2008 in Account #228-10, Deferred Income—Swap Meet in the amount of \$7,733. Since the Fair is contractually required to make these improvements and carry the liability, the Fair should properly track the amounts it has

spent on behalf of the swap meet for these purposes. As a result, Account #228.10 was overstated at year-end 2008. This was a prior year finding.

- b. The deferred income account contains a balance totaling \$5,316 from the Fair's master concessionaire prior to May 2005. According to the Fair staff, the master concessionaire left the fairgrounds and, in doing so, left the balance of unearned income with the Fair. However, it is unclear whether the deferred income has subsequently been earned by the Fair or if the Fair should return the deferred income to the master concessionaire. Without resolving this issue, the balance will remain on the general ledger.

Recommendations

- 10. The Fair should review Account #190.01, Construction in Progress—Swap Meet Improvements prior to 2007 to identify possible adjustments to be made to Account #228.10.*
- 11. The Fair should research and determine whether the balance should be returned to the master concessionaire or recognized as revenue to the Fair.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

Our office noted the Fair has assets totaling \$250,316 that should be removed from the general ledger and property ledger. These items are comprised of message boards totaling \$217,000 that have been removed from the fairgrounds and salvaged prior to June 2008. However, they are still recorded in the Fair's property ledger and general ledger, and the Fair continues to depreciate these assets. Additionally, \$26,697 from the photovoltaic project was recorded and capitalized twice. The remaining \$6,619 was from capitalization of an asphalt repair that should have been expensed the year the repair occurred since generally accepted accounting principles require amounts spent on repairs be expensed rather than capitalized.

Recommendation

The Fair should make the necessary adjustments to ensure the amounts reported in the property ledger and the general ledger for fixed assets are fairly stated.

BANK RECONCILIATIONS

The Fair did not always prepare bank reconciliations for the operating account in a timely manner. For instance, the bank reconciliations for the months of January to June were prepared on August 12, 2008. In essence, it took the Fair seven months to complete the January bank reconciliation. According to State Administrative Manual (SAM) Section 8060, "All banks and centralized State Treasury System (CTS) accounts will be reconciled promptly at the end of each month." The purpose of bank reconciliations is to ensure that paid checks and deposits are reconciled with entries in the cash disbursements and receipts journals, to identify all current outstanding checks, and to reconcile bank balance to accounting records. Timely bank reconciliations help resolve any discrepancies that may occur. This was a prior year audit finding.

Recommendation

The Fair should prepare bank reconciliations for all accounts in a timely manner pursuant to SAM Section 8060. During the preparation, the Fair should ensure that all reconciling items are appropriate and should research any item that appears irregular.

TEMPORARY EMPLOYEES

The Fair allowed four temporary employees to work in excess of the 119-day limitation. The four employees work hours ranged from 131 to 207 days during 2008, which could result in the employee not being exempt from civil service. According to the Constitution of the State of California, Article VII, Section 4(1), officers and employees of district agricultural associations employed less than six months in a calendar year are exempt from civil service. Temporary employees are not covered by civil service laws; therefore, temporary employees

working six months or more in a calendar year may not be exempt from civil service law. Six months equates to 120 days considering a five-day work week regardless of the number of hours worked in a day. Furthermore, the F&E Accounting Procedures Manual (APM) states that temporary employees may not work more than 119 days in a calendar year. This was a prior year audit finding.

Recommendation

The Fair should comply with the Constitution of the State of California and ensure that temporary employees do not work in excess of six months in a calendar year to remain exempt. In addition, the Fair should comply with the APM and not allow any temporary employee to work in excess of 119 days in a calendar year.

OPPORTUNITY PURCHASING

The Fair made several opportunity purchases in 2008; however, the Fair did not always document that all opportunity purchases meet or beat State price as required by Public Contract Code Section 10321. Opportunity purchases allow the DAA to purchase commodities locally at a price equivalent to or less than that available through the State purchasing program. To claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the State purchasing program does not sufficiently meet the documentation criteria. This was a prior year audit finding.

Recommendation

The Fair should follow approved guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meet or beat the State price.

DIRECTORS' DINING DURING FAIRTIME

The Fair paid \$16,380 for food expenses during fairtime for its Board members in entertaining guests. The Fair maintained sign-in logs and provided a general description outlining the need for daily meals during fairtime. However, the Fair did not provide specific topics discussed in accordance with the APM. APM Section 1, 2.86, Public Relations and Promotional Expenses, indicated that promotional and public relations expenses are to include names of recipients, purpose of expense, and justification for providing the meal by specifying the topics discussed during the event and the necessity of or the benefits expected to accrue to the Fair. Although the Fair provided a list of attendees and a general justification of the purpose of the food expense, the Fair did not identify the specific topics discussed. Without the specific topics discussed, we are unable to determine whether this expense did indeed benefit the Fair.

Recommendation

The Fair should comply with the APM, Section 1, 2.86 which requires the justification of providing food or a meal by specifying the topics discussed during the event and the necessity of or the benefits expected to accrue to the Fair.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



November 17, 2009

Mr. Ron Shackelford, CPA, Audit Chief
Department of Food & Agriculture
1220 "N" Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

This is in response to the preliminary draft of Audit/Management Report #09-019,
Reportable Conditions of the 2008 Fresno Fair Records.

I. STANDARD AGREEMENTS

- The Fair will comply with Contract Manual Section 2.05 and seek quotes and use the bidding process when appropriate.
- The Fair will comply with Contract Manual Section 5.10 regarding multiple year Contracts/Options to renew. We will prepare a written justification for any multi-year agreement.
- The Fair will ensure that all contracts are properly signed by both parties prior to the execution of the agreement.
- The Fair will review all out-of-state entertainers who earn over \$1,500.00 to assure that state taxes are properly deducted.
- The Fair will ensure that Standard 204 is completed and on file for all individual/business's receiving payment from the State of California.

II. BOARD MEMBER TICKETS/PASSES

- The Fair will continue to improve on the internal controls regarding the ticket/pass distribution.

III. EXCESSIVE PAID LEAVE BALANCES

- The Fair will encourage the permanent employees who have excessive leave balances to take time off.



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IV. CASHING OF ENTERTAINER'S CHECKS

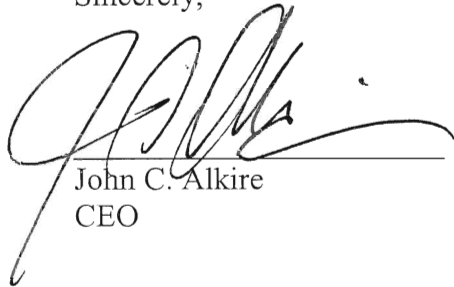
- The Fair will comply with SAM Section 8032.4 to assure that all cash receipts are collected from fair time admissions and deposited intact. The Fair will not use daily receipts or change funds to cash checks.

V. ACCOUNTING FOR DEFERRED INCOME

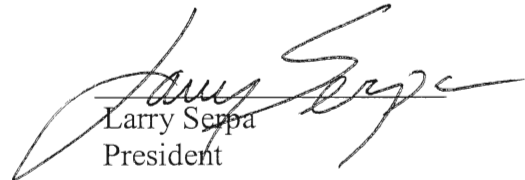
- The Fair will review and make adjustments as needed in account #190-01, construction in progress. We will also review and make adjustments in account #228-10 Swap Meet improvements.
- The Fair will research the Fair's master concessionaire prior to 2005 to determine if the balance in deferred income should be returned or if it should be recognized as revenue.

Please contact us if you have questions or need more information.

Sincerely,



John C. Alkire
CEO



Larry Serpa
President

cc: Michael Treacy, Director, Fairs & Expositions

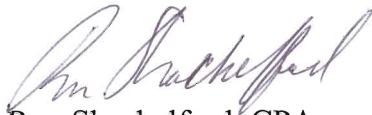
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 21st DAA, The Big Fresno Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 15, 2009 and June 26, 2009. My staff met with management on June 26, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

June 26, 2009

REPORT DISTRIBUTION

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1	Director, Division of Fairs and Expositions
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1	Chief, CDFA Audit Office